
From: jeffrey E. <jeevacation@gmail.com>
Sent: Wednesday, June 3, 2015 2:02 PM
To: Daniel Sabba
Subject: Re: Idea for US equity hedging... [C]

too complex for me

On Wed, Jun 3, 2015 at 9:42 AM, Daniel Sabba <[REDACTED]> >> wrote:

Classification: Confidential

Jeffrey,</=pan>

We wanted to share this =S equity hedging idea with you. We think it is relevant since US equity in=ices are near historic highs, implied volatility in US equities is close t= historical lows and there is potential for Fed liftoff in September.

David Bianco published t=e following on 5/22 (full report attached) about the possibility of a 5%+ =ullback in the summer months:

"We believe the probability of a 5%+ dip is high this summer =nd our tactical call remains Down given the S&P now at an even higher =E than a year ago, heightened uncertainty in 10yr yields, weak earnings growth and continued soft economic data. We haven =80 t had a 5%+ dip this year. Historically 5%+ dips are common and happe= at least once a year since 1960, except 1964, 1993 & 1995. It has bee= 916 trading days (3.6 years) since a 10% correction. Selloff triggers could be a further rise in 10yr yields especially if UE k=eps falling amidst slow economic growth and Fed remains unclear on first h=ke timing, or a jump in the dollar upon the Fed expressing firm intentions=to hike in Sept."

With that said, we looke= at OTC equity put spreads contingent on higher rates. We priced in-the-money versions which would obtain its maximum payout (=ver 5x premium) with a 5% sell-off in SPX and higher 10y US swap rates (CM=, 25bps over its forward level).

Indicative transaction terms (as of 06/03/2015):

Client buys: =A0 OTC SPX 105%/95% Put Spread contingent o= 10y USD CMS > atm�+25bps at expiry

Notional: =C2 =A0 USD50mm

Expiry: =A0 =C2 18 Dec 2015

Offer (mid): =A0 =C2 =A0 2.00% (1.60%)

Ref vanilla: =A0 =C2 4.30%

Ref SPX future: =C2 2115

Ref 10y fwd: =A0 2.54%

SPX Implied volatility levels close to historical lows

Please let us know if you would like to discuss. Best regards,

Daniel<=>

=C2

Daniel Sabba</=>

Key Client Partners</=>

Deutsche Bank Securities=Inc.

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